

Compiled by Markit for Bank of Scotland, this report is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 600 private manufacturing and service sector companies. The panel is carefully selected to accurately replicate the true structure of the Scottish economy.

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## BANK OF SCOTLAND PMI: SCOTLAND'S PRIVATE SECTOR SEES GROWTH SURGE AT END OF SECOND QUARTER

- Fastest rise in business activity since May 2007
- Survey-record increase in new work
- Rate of job creation at 14-month high

Growth in Scotland's private sector economy accelerated sharply at the end of Q2, latest *PMI* data from **Bank of Scotland** have shown. Marked increases in business activity and new work led firms to raise employment levels, as backlogs of work accumulated for the first time in close to two years. Input prices faced by businesses meanwhile rose at a slightly faster pace, though competitive pressures ensured output price inflation remained muted.

**Business activity** in Scotland's private sector economy rose sharply in June, and at the fastest rate since the height of the upturn before the 2008/9 financial crisis. The Bank of Scotland PMI rose for the third straight month to 57.0, up from a reading of 54.4 in May. This also indicated a slightly faster expansion in output north of the border than across the UK as a whole over the month. Scotland's expansion was broad-based by sector, with both factory output and service sector activity up markedly.

June meanwhile saw a survey-record increase in the level of **new business** placed with firms in Scotland. Growth in new work was principally driven by resurgent demand in the domestic market, with manufacturers recording a further loss of new business from clients overseas. Total incoming new business has now risen in each of the past seven months.

Increased workloads and improving pipelines of new work encouraged businesses to take on additional staff in June, extending the current sequence of net job creation in Scotland to seven months. Furthermore, the rate of increase in **employment** was the fastest since April 2012.

June's marked growth of new business inflows contributed a rise in **backlogs of work** at Scottish firms – the first such increase in 22 months. Moreover, the rate of accumulation was solid, and the sharpest in over six years.

Latest data pointed to a slight uptick in the rate of **input price inflation** facing businesses in Scotland, up from an 11-month low in May. Firms north of the border recorded a faster increase in cost burdens than at the UK level, and reported paying more for food, fuel, staff and utilities than in May. **Output prices** in Scotland on the other hand rose at a slower pace – the weakest since March. Helping ease overall charge inflation was a near-stagnation in factory gate prices.

**Donald MacRae, Chief Economist at Bank of Scotland, said:** "June's PMI rose to the highest level since May 2007, signalling a sharp acceleration in growth of the private sector of the Scottish economy in the month. Both the services and manufacturing sectors recorded rising activity and output, accompanied by growth in employment. This growth spurt is domestic based with new export orders out with the UK falling for the second successive month. Nevertheless, these results provide more welcome evidence of the growing strength of the recovery in the Scottish economy."

## Component Summary

### Output / Business Activity

June saw a sharp and accelerated increase in the level of business activity at **service providers** operating in Scotland. In fact, the rate of growth was the fastest in six years. Helping support the expansion in business activity over the month was a further rise in new work intakes at services firms.

June data pointed to a further increase in production at **manufacturers**, extending the current sequence growth to three months. Furthermore, the pace of expansion accelerated sharply since the preceding survey period, to the fastest since April 2011.

### New Business

The amount of new work received by **service providers** rose sharply in the latest survey period, and at the fastest rate since March 1998. More than one-third of the survey panel recorded a rise in new work intakes over the month, compared with 13% that noted a reduction. Firms that recorded higher intakes of new work often commented on improved market confidence and increased marketing efforts.

New business at **manufacturers** rose at the fastest rate for 26 months in June. Growth in new work was indeed marked in the context of historical survey data. Anecdotal evidence pointed to a general improvement in domestic market demand, with a number of panel members commenting on new clients wins over the month.

### Backlogs

Reflective of a surge in new business in the **service** sector in June, backlogs of work were widely accumulated over the month. The level of work-in-hand (but not yet completed) rose at a solid rate, and one that was the fastest since June 2007.

Backlogs of work at **good producers** were reduced at a much slower pace in June, partly reflective of the strengthening trend in new order inflows. In fact, the latest decrease in the level of outstanding business was only marginal, and the least marked since August 2011.

### Input prices

Cost burdens in Scotland's **service sector** rose during June, with the rate of input price inflation picking up slightly from May's 43-month low (but nevertheless still slightly below the long-run series average). Food, fuel, staff and utilities were all highlighted by respondents as sources of inflationary pressure over the month.

Input price inflation in the **manufacturing sector** continued to fall further from March's recent high during the latest survey period, dipping to the slowest since July 2012. Inputs reported as up in price by the panel included food and paper.

### Output prices

**Services firms** responded to higher average costs by raising output charges for a third consecutive month in June. Although the sharpest since last September, the increase in tariff was nevertheless still only modest overall, and much less marked than the rate of growth in input prices in June.

After having risen for five consecutive months, prices charged by **goods producers** were virtually unchanged in June compared with the situation one month earlier.

### Employment

Increased workloads prompted **services firms** to take on additional staff for a thirteenth straight month in June. Moreover, the rate of job creation was the fastest in this sequence, having accelerated for the fourth time in as many months.

With pressure growing on **manufacturers'** resources due to higher production requirements, June saw employment levels in the sector rise again. That extend the current spell of net job creation to five months. Moreover, the increase in employment was the most marked since February.

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Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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